FAQs Regarding Personal Saving

How is it possible for personal saving to be negative?

Personal saving is the amount left over from disposable personal income after expenditures on personal consumption, interest, and net current transfer payments. This amount is available to acquire financial assets such as bank deposits and mutual funds, to use towards acquiring a home, or to reduce liabilities by repaying principle on mortgages or consumer debt.

If expenditures on personal consumption, interest, and net current transfers exceed disposable personal income in a quarter, personal saving will be negative. This can occur because current income is not the only possible source of funds for consumption expenditures. Although spending must eventually fall back into line with income, households can spend more than their after-tax income for a time by withdrawing deposits saved in previous periods, by selling financial or tangible assets, or by borrowing. Indeed, an individual household's saving is unlikely to be positive over the short run when it makes a major purchase of a consumer durable good such as an automobile, and even at the aggregate level, personal saving may fluctuate in periods when an unusually high number of households make such purchases.

Do the NIPAs include all sources of funds that could be used for personal consumption expenditures?

The definition of income used in the NIPAs excludes one important financial resource that could be used for consumption expenditures. Capital gains are not included in income in the NIPAs.

Although only realized capitals gains provide cash that can be spent, unrealized gains can be used as collateral to support additional borrowing of cash, or they may be treated as substitutes for saving out of current income. When a household owns an asset that has increased in value, the household could potentially spend the capital gain yet still have as high a net worth as it did before the gain occurred.

In recent years, the personal sector has enjoyed large capitals gains on real estate. The rising net worth resulting from these gains is often cited as contributing to the increases in consumption expenditures that have depressed personal saving. Personal mortgage indebtedness has grown at about the same high rate as the value of real estate owned by persons. Some of the new mortgage debt has been used directly for consumption expenditures by households who have increased their loan balances by refinancing or by drawing on a home equity line of credit. In other cases, increased mortgage debt has been used by buyers to pay higher prices for homes, and the sellers receiving those prices have undoubtedly used some of their gains to fund consumption expenditures. Finally, unrealized capital gains on their real estate may have caused some households to save less of their current income than they otherwise would have.

Why do the NIPAs exclude capital gains from income and saving?

Capital gains differ from ordinary income in three important respects. They are less available to fund expenditures, because to spend a capital gain, the asset that has appreciated must first be sold. (A capital gain can sometimes be used indirectly to fund spending if the asset is pledged as collateral for a loan that is based on the value of the collateral.)

Second, ordinary income is generally stable enough to view as a sustainable source of funds to meet expenses, but capital gains are volatile and not always positive. For example, in 2002, capital losses on stocks and mutual funds caused a decline in personal net worth that exceeded 20 percent of disposable personal income. A measure of saving that is stable and dependable is more meaningful for most purposes than one that is subject to wide, unpredictable fluctuations.

Finally, adequate funding for investment is critical for a nation's future economic prospects, and the NIPA definition of saving is the appropriate one for measuring funds made available to finance new investment. Capital gains represent changes in the price of already-existing assets, but only an expansion of the real stock of assets via investment represents an increase in the wealth of a society. Unlike saving out of ordinary income, capital gains are not a source of funding for needed investment. A nation that does not save, as this concept is defined in the NIPAs, must either do without the investment needed to maintain or improve its standard of living, or it must depend on saving by other nations for the financing of its investment needs.

What other measures of saving are available, and what do they show?

As part of its Flow of Funds accounts, the Federal Reserve Board produces a measure of personal saving based on the difference between the personal sector's net acquisitions of assets and its net increase in liabilities. This measure shows the same downward trend in personal saving relative to disposable personal income seen in the NIPA measure. After some adjustments to make it conceptually equivalent to the NIPA definition of personal saving, it shows the pattern in table A below.

The NIPAs include some additional measures of saving that are broader than personal saving. Private saving includes saving by business in the form of corporate retained earnings along with saving by persons. Gross saving (also known as gross national saving) includes saving by all sectors of the domestic economy, persons, business and government gross of the depreciation expenses known as "consumption of fixed capital." It declined from 18.2 percent of gross national income in 1998 to 13.4 percent of gross national income in 2004; see table 5.1.

The difference between gross national saving and gross domestic investment represents the external financing that is obtained by borrowing from the rest of world or sales of US assets to the rest of the world. It has grown rapidly in recent years, as is shown by the line for "Net lending or net borrowing" in table 5.1.

Table A: Net Acquisitions of Assets other than Consumer Durable Goods

Less Net Increase in Liabilities for the Personal Sector

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net investment in fixed assets (excluding consumer durable goods)	179.9	203.2	221.6	257.5	276.0	284.6	299.5	320.2	376.3	437.2
+ Net acquisition of financial assets	467.2	506.7	372.6	524.9	322.5	198.3	516.3	380.9	777.4	715.4
– Net increase in liabilities	337.2	356.7	356.6	457.7	575.0	569.3	579.2	695.0	889.6	1121.5
Home mortgages	157.1	210.4	222.7	303.5	375.6	368.1	464.3	628.4	736.4	904.2
All other liabilities	180.1	146.3	133.9	154.2	199.4	201.2	114.9	66.6	153.2	217.3
= Net saving, flow of funds accounts measure (excluding consumer durable goods)	309.9	353.2	237.6	324.7	23.5	-86.4	236.6	6.1	264.1	31.1
Net saving, as a percentage of disposable personal income	5.7	6.2	4.0	5.1	0.4	–1.2	3.2	0.1	3.2	0.4

Source: Flow of Funds Accounts of the Federal Reserve Board, table F.100.